

Canadian inflation holds steady at 18-year high of 4.7% in November

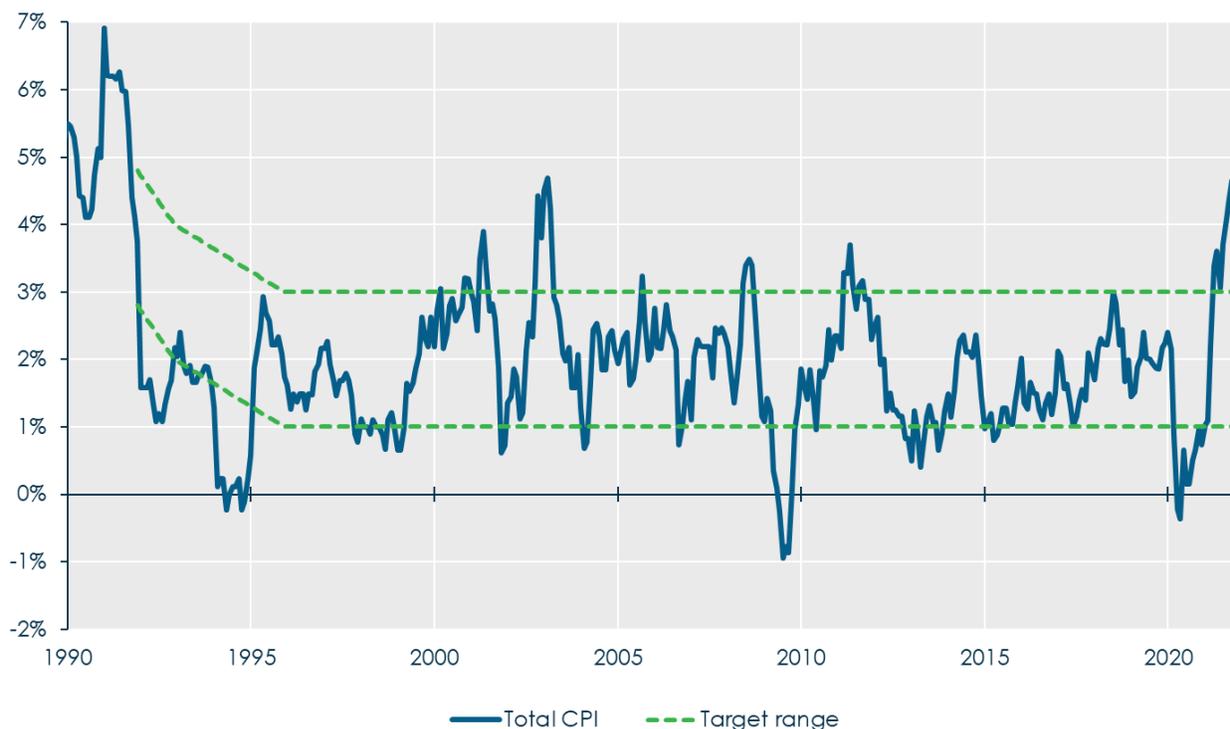


Stephen Tapp, Chief Economist

December 15, 2021

Canadian inflation

Year-over-year, % change



Source: Statistics Canada

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“ **Monetary policy implications:** *With inflation still running at a 18-year high, the policy rate at its effective lower bound, and the Bank of Canada’s ongoing asset re-investments, monetary policy has never been this stimulative at any point in the inflation targeting era. And while Canada’s economic recovery is still incomplete and uneven, it’s sufficiently entrenched that the Bank should start to remove some of its emergency support in the first quarter of 2022.*

“ **Canadian business implications:** *Canadian consumers aren’t the only ones facing higher costs. Businesses are also struggling with surging input costs, labour shortages, supply chain disruptions, and renewed uncertainty due to the latest rise in COVID cases. In the near-term, profitability will be squeezed, and if businesses pass these cost increases onto their consumers this will prolong the pressures on (expected) inflation and wage demands. For small businesses carrying elevated debt from lockdowns, the higher interest rates ahead will make it harder to service their debt.*



Key Takeaways

- Canadian headline CPI inflation **held steady in November at 4.7%**, still running at its **highest rate in 18 years**. This is the eighth month in a row that inflation has been above the Bank of Canada's inflation control band.
- Inflation is being led by rising prices for **energy** (+26% year-over-year, with gas prices up 44%) and **transportation** (+10%, with passenger vehicles up 6% during the global shortage for semiconductor chips).
- Price increases for **goods** continued to accelerate (6.9%), while they decelerated for **services** (2.9%, weighed down by lower cellphone services).
- **Inflation continued to climb in 4 of 10 provinces**, and is running hotter in Ontario, Quebec and Atlantic Canada.
- Because prices fell early in the pandemic, it's important to look beyond year-over-year comparisons. **Canadian inflation is running at an elevated, but-less-eye-popping, 2.8% annualized rate over the first 21 months of the pandemic.**
- The average of the **Bank of Canada's "core inflation" measures held steady** on the month at 2.7%, although the "common" measure ticked up 20 basis points.
- With the Bank of Canada's *nominal* policy interest rate at its effective lower bound (0.25%), and inflation rising (now 4.7%), the *real* (i.e., inflation-adjusted) policy rate is -4.4%! It's **never been this stimulative in the inflation targeting era**, and that's not factoring in quantitative easing (where the Bank's holdings of government of Canada bonds have increased from 4% of GDP pre-pandemic to 18%). As such, **the focus is increasingly shifting to when the Bank will start to taper its asset purchases, and start to raise its policy rate.**

Summary tables

Canadian inflation	Year/Year			YTD, %	Feb-2020 to date, %
	Oct	Nov	Trend		
Consumer Price Index	4.7%	4.7%	→	4.3%	4.9%
Energy	25.5%	26.4%	↗	22.1%	20.3%
Transportation	10.1%	10.0%	↘	7.2%	7.9%
Shelter	4.8%	4.8%	→	5.1%	6.3%
Food	3.8%	4.4%	↗	3.7%	5.1%
Excluding food & energy	3.2%	3.1%	↘	3.0%	3.6%
Goods	6.5%	6.9%	↗	6.4%	6.3%
Services	3.2%	2.9%	↘	2.6%	3.8%
Average of BoC core measures	2.7%	2.7%	→		
CPI-trim	3.4%	3.4%	→		
CPI-median	2.8%	2.8%	→		
CPI-common	1.8%	2.0%	↗		

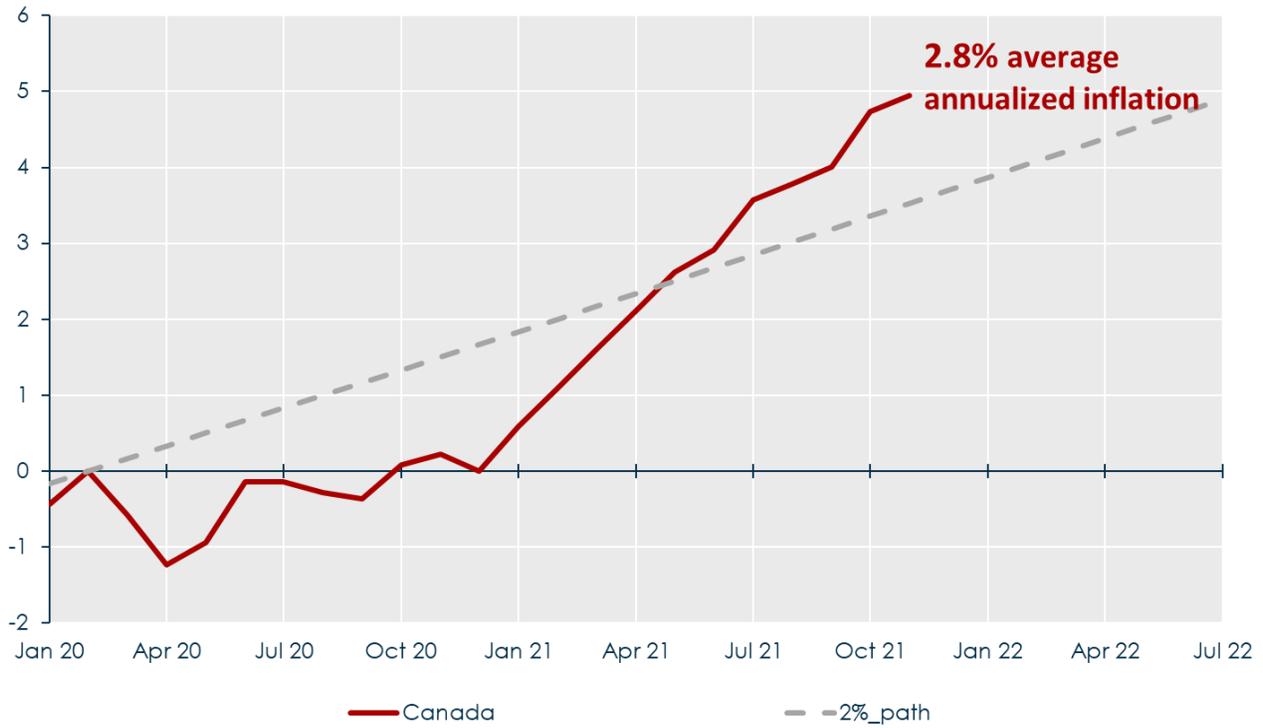
Sources: Canadian Chamber of Commerce; Statistics Canada; Bank of Canada

Provincial inflation	Year/Year			YTD, %	Feb- 2020 to date, %
	Oct	Nov	Trend		
Canada	4.7%	4.7%	→	4.3%	4.9%
BC	3.8%	3.6%	↘	3.2%	3.8%
AB	4.3%	4.3%	↘	3.9%	4.1%
SK	3.2%	3.7%	↗	3.0%	3.5%
MB	4.7%	4.6%	↘	4.4%	4.6%
ON	4.9%	5.0%	↗	4.4%	5.0%
QC	5.3%	5.2%	↘	4.4%	5.3%
NB	5.5%	5.7%	↗	4.6%	5.0%
NS	5.4%	5.3%	↘	4.0%	4.9%
PEI	6.6%	7.0%	↗	5.8%	6.4%
NFLD	4.5%	4.2%	↘	3.3%	4.6%

Sources: Canadian Chamber of Commerce; Statistics Canada

Canadian CPI inflation pandemic overshoot

% change since February 2020



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